

The Corporate Governance And Financial Performance Of Saccos In Wakiso District, Uganda

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Abstract

Savings and Credit Cooperative Organisations (SACCOs) have emerged as vital financial intermediaries in Uganda's inclusive finance architecture, extending credit and savings services to populations largely excluded from formal banking. However, persistent concerns about governance failures, financial mismanagement, and institutional collapse have undermined public confidence and limited the sector's developmental impact. This study investigates the relationship between corporate governance practices and financial performance among SACCOs in Wakiso District, Uganda. Drawing on the Agency Theory and Stewardship Theory frameworks, the study employs a correlational cross-sectional research design. Primary data were collected through structured questionnaires administered to board members, managers, and members of 28 registered SACCOs, complemented by financial statement analysis spanning 2018–2022. Corporate governance was operationalised through board composition, transparency and disclosure, member participation, and regulatory compliance. Financial performance was measured through return on assets, loan portfolio quality, operational self-sufficiency, and member savings growth. Regression analysis reveals that board composition ($\beta=0.412$, $p<0.001$), transparency ($\beta=0.318$, $p=0.003$), and regulatory compliance ($\beta=0.287$, $p=0.008$) are significant predictors of SACCO financial performance. The study concludes that strengthening governance structures particularly board professionalization and enhanced member participation is indispensable for sustainable SACCO performance in Wakiso District.

Keywords: Corporate Governance, SACCOs, Financial Performance, Wakiso District, Board Composition, Cooperative Finance, Agency Theory, Uganda, Loan Portfolio Quality, Operational Self-Sufficiency

1.0 INTRODUCTION

The cooperative movement in Uganda traces its origins to the colonial period, with SACCOs emerging as a distinct organisational form in the 1960s (Alex & Moses, 2024). Today, SACCOs constitute one of the most numerous categories of financial institutions in the country, with the Uganda Cooperative Alliance (UCA) estimating over 5,000 active SACCOs serving more than 1.2 million members as of 2022 (UCA, 2022). In Wakiso District one of Uganda's most populous and economically dynamic districts SACCOs have proliferated in response to the financial exclusion of the rapidly growing periurban and rural population (Christopher, 2022).

Despite their numerical strength and developmental potential, Ugandan SACCOs have been beset by governance challenges that compromise their financial performance and institutional integrity (Julius & Audrey, 2026). Between 2015 and 2022, the Uganda Microfinance Regulatory Authority (UMRA) documented over 340 cases of SACCO financial distress or collapse, frequently attributable to board mismanagement, loan embezzlement, inadequate record-keeping, and failure to maintain mandatory reserves (UMRA, 2022). These failures impose significant costs on

members many of whom are low-income households that have entrusted their savings to cooperative institutions(A. G. Kazaara et al., 2024).

The nexus between corporate governance and financial performance has been extensively theorised and empirically investigated in the corporate sector, but analogous research in the SACCO context particularly in Uganda remains comparatively underdeveloped. Existing studies (Lubanga, 2019; Ssemanda, 2021; Kiwanuka & Nkurunziza, 2020) have addressed specific governance dimensions in isolation or focused on different geographic contexts. This study adopts a holistic governance framework and employs rigorous multivariate analysis to examine how governance architecture shapes financial outcomes among Wakiso District SACCOs, generating findings with both theoretical and practical significance(Racheal et al., 2023).

2.0 THEORETICAL FRAMEWORK

2.1 Agency Theory

Agency theory, foundationally articulated by Jensen and Meckling (1976), posits that governance structures exist to manage the inherent tension between principals (owners/members) and agents (managers/directors) arising from information asymmetry and divergent interests(Alex & Moses, 2024). In the SACCO context, members as principals elect boards of directors as their agents to oversee management on their behalf(Alex & Kazaara, 2023). Agency problems arise when directors or managers prioritise personal gain through loan fraud, salary inflation, or resource diversion over member interests(Polycarp et al., 2023). Effective corporate governance mechanisms, including board oversight, external auditing, and disclosure requirements, serve to align agent behaviour with principal interests and reduce agency costs(Ronet et al., 2023).

2.2 Stewardship Theory

Stewardship theory (Davis et al., 1997) offers an alternative lens, proposing that managers are not inherently self-interested but are motivated by intrinsic drivers such as organisational achievement and professional pride(Julius & Kazaara, 2026c). Under this perspective, governance structures should empower rather than constrain management, facilitating decision-making that serves collective interests. In cooperative settings, stewardship dynamics are particularly relevant because the cooperative identity creates normative expectations of mutual accountability and democratic participation that align individual and collective interests(A. I. Kazaara & Audrey, 2024). The dual theoretical framework adopted here acknowledges the empirical coexistence of both agency and stewardship dynamics in SACCO governance.

3.0 METHODOLOGY

3.1 Research Design and Population

A cross-sectional correlational design was employed to examine relationships between governance variables and financial performance at a point in time, complemented by longitudinal financial data spanning five years (2018–2022)(Julius & Nancy, 2026). The study population comprised all 43 registered SACCOs in Wakiso District, of which 28 with complete financial records and operational status were purposively selected. Within these SACCOs, 224

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respondents were surveyed including board members (n=84), management staff (n=67), and active members (n=73). The response rate was 91.5%.

3.2 Measurement Instruments

Corporate governance was measured using a composite instrument adapted from the CGAP Microfinance Governance Framework and UMRA governance guidelines. Four dimensions were assessed: board composition (size, qualifications, independence, gender diversity); transparency and disclosure (financial reporting frequency, audit completion, information accessibility); member participation (attendance rates, voting participation, grievance mechanisms); and regulatory compliance (reserve ratios, loan-to-deposit ratios, mandatory reporting). Financial performance was measured through five ratio-based indicators extracted from audited financial statements, enabling objective, comparable assessment across SACCOs of different sizes.

4.0 CORPORATE GOVERNANCE PROFILE OF WAKISO SACCOs

The governance assessment reveals considerable heterogeneity among sampled SACCOs, with performance on individual governance dimensions varying significantly. Table 1 presents aggregate governance scores across the four dimensions, scored on a 100-point composite scale and disaggregated by SACCO size category. The data expose critical governance deficits particularly among smaller SACCOs, which constitute the majority of the sector.

Governance Dimension	Large SACCOs (n=8)	Medium SACCOs (n=11)	Small SACCOs (n=9)	Overall Mean
Board Composition Score (100)	72.4	58.3	41.7	57.5
Transparency & Disclosure (100)	68.9	52.1	33.6	51.5
Member Participation (100)	65.2	54.8	42.3	54.1
Regulatory Compliance (100)	74.1	60.4	38.9	57.8
Overall Governance Index (100)	70.2	56.4	39.1	55.2
% with Certified External Audit	100%	81.8%	44.4%	75.0%
% with Gender-Balanced Board	75.0%	45.5%	22.2%	46.4%

Source: Primary Data, 2025

The composite governance scores reveal that only large SACCOs approach adequate governance standards, while small SACCOs which collectively serve approximately 40% of all members operate with dangerously weak governance frameworks(A. G. Kazaara et al., 2024). Board composition scores of 41.7 for small SACCOs reflect the predominance of boards selected through personal networks rather than merit, boards lacking financial or legal

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expertise, and the near-total absence of gender diversity(Julius & Kazaara, 2026b). The low transparency scores among small SACCOs indicate that members often lack access to basic financial information, including income statements and loan portfolio reports, making informed democratic participation impossible(Ivan et al., 2023).

The finding that only 44.4% of small SACCOs have certified external audits is particularly alarming(Innocent et al., 2023). External auditing is the primary mechanism for detecting financial irregularities and providing assurance to members(Promise et al., 2024). Its absence creates conditions in which fraud can proceed undetected for extended periods. Focus group discussions with members of SACCOs that had experienced financial distress confirmed that audit failures were consistently present in the lead-up to institutional collapse a pattern corroborating the theoretical predictions of agency theory(Julius & Audrey, 2026).

5.0 FINANCIAL PERFORMANCE ANALYSIS

Table 2 presents the financial performance indicators for sampled SACCOs, disaggregated by governance tier based on composite governance index scores. The data reveal a strong positive relationship between governance quality and financial performance across all five performance metrics, providing preliminary support for the study's central hypothesis.

Performance Indicator	High Governance (n=9)	Medium Governance (n=10)	Low Governance (n=9)	Industry Benchmark
Return on Assets (ROA)	4.8%	2.3%	-1.2%	≥3%
Portfolio at Risk >30 days (PAR30)	7.2%	14.6%	31.8%	<10%
Operational Self-Sufficiency (OSS)	128.4%	104.7%	76.3%	≥110%
Member Savings Growth (5yr avg)	18.7%	9.4%	3.1%	≥10%
Loan Recovery Rate	94.3%	82.6%	61.4%	≥90%
Capital Adequacy Ratio	14.2%	9.8%	5.1%	≥10%
Cost per Borrower (UGX '000)	87	143	276	<120

Source: Primary Data, 2025

The financial performance data in Table 2 demonstrate stark contrasts between governance tiers. High-governance SACCOs achieve an average Return on Assets of 4.8% comfortably above the industry benchmark while low-governance SACCOs record a negative ROA of -1.2%, indicating that operational losses are eroding the member asset base(Julius & Kazaara, 2026a). The Portfolio at Risk ratio of 31.8% among low-governance SACCOs represents a

crisis-level indicator; international microfinance benchmarks consider PAR30 above 10% to signal serious institutional distress requiring immediate corrective action(District et al., 2023).

Operational self-sufficiency a critical indicator of whether a SACCO can cover its costs from operational income without relying on subsidies or grants reveals that low-governance SACCOs are fundamentally unsustainable, covering only 76.3% of costs(Gloria et al., 2023). These institutions depend on member savings principal to fund operations, a practice that ultimately depletes the member resource base and accelerates institutional failure(Ntirandekura et al., 2022). Member savings growth of 3.1% among low-governance SACCOs, compared to 18.7% among high-governance institutions, reflects declining member confidence a self-reinforcing downward spiral that governance improvement must interrupt.

6.0 REGRESSION ANALYSIS RESULTS

Multiple regression analysis was conducted to determine the relative predictive power of each governance dimension on financial performance (measured by the composite performance index). Table 3 presents the regression coefficients, standard errors, and significance levels.

Governance Predictor	Beta (β)	Std. Error	t-statistic	p-value	Significance
Board Composition	0.412	0.087	4.736	<0.001	***
Transparency & Disclosure	0.318	0.093	3.419	0.003	**
Regulatory Compliance	0.287	0.098	2.929	0.008	**
Member Participation	0.193	0.101	1.911	0.067	†
SACCO Size (control)	0.241	0.076	3.171	0.005	**
R ² = 0.648; Adjusted R ² = 0.619	F(5,22) = 8.114	=	p < 0.001		

Source: Primary Data, 2025

The regression model explains 64.8% of the variance in SACCO financial performance (R²=0.648), indicating that the governance framework adopted by this study captures a substantial proportion of the factors driving financial outcomes(Nelson et al., 2022a). Board composition emerges as the strongest predictor (β=0.412, p<0.001), underscoring the foundational importance of having competent, independent, and diverse boards in driving SACCO performance(Nelson et al., 2022b). Boards with members possessing financial, legal, or business expertise are better positioned to provide meaningful oversight, critically evaluate management proposals, and detect early warning signs of financial distress.

Transparency and disclosure (β=0.318) and regulatory compliance (β=0.287) are both highly significant predictors. Transparency creates accountability environments that deter mismanagement and build member trust evidenced by the strong correlation between disclosure scores and member savings growth(Nelson et al., 2023). Regulatory compliance, while partly coerced by UMRA, appears to function as a governance discipline that forces SACCOs to maintain minimum standards even when internal governance motivation is weak(Derrick et al., 2023). Member

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participation approaches but does not reach conventional significance thresholds ($p=0.067$), which may reflect the difficulty of translating nominal participation into substantive governance influence in contexts of low financial literacy.

7.0 CONCLUSIONS AND POLICY IMPLICATIONS

This study provides robust empirical evidence that corporate governance quality is a strong and statistically significant determinant of SACCO financial performance in Wakiso District. The governance deficit is most acute among small SACCOs, which serve vulnerable populations who stand to lose the most from institutional failure. Policy responses must prioritise board capacity development through mandatory director training programmes facilitated by UMRA and UCA and extend external audit requirements to all SACCOs regardless of size. Member financial literacy programmes are needed to transform nominal participation into substantive governance accountability. Finally, UMRA's regulatory framework should incorporate governance-linked licensing incentives, rewarding well-governed SACCOs with streamlined compliance requirements while subjecting poorly governed institutions to enhanced supervisory scrutiny.

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